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WILLIAM T FUJIOKA
Chief Executive Officer

March 6, 2009

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum contains an update on the 1) status of the State Controller's disbursements for the February and March payments, 2) the Department of Finance preliminary estimate of Federal Stimulus funding attributable to the trigger in the State Budget, and 3) the pursuit of positions on bills relating to the elimination of semi-annual Medical reporting for children related to the Federal Medical Assistance Percentage (FMAP) increase.

State Controller to Resume Payments

Today, the State Controller announced that he has begun releasing more than $2.8 billion in payments scheduled to be made in February but were delayed because of the State's cash flow crisis. According to his press release, the issuance of delayed payments is possible because the recently enacted State Budget reduced the projected cash short-fall for the current year from $5.1 billion to $630.0 million. The State Controller anticipates that all of the February delayed payments will be paid within the next several weeks, and indicated that March payments will be made as scheduled.

The State Controller also indicated that he intends to work with the Department of Finance and the State Treasurer to secure short-term borrowing of up to $1.5 billion to ensure the State is able to meet all of its current year fiscal payment obligations.

Next week, the State Controller will release his monthly report disclosing actual cash receipts and disbursements for the month of February and the fiscal year to date. A detailed analysis of the State's cash flow for FY 2009-10 will be released within the next several weeks.

State Budget Update – Department of Finance Preliminary Report on the Trigger

The Department of Finance (DOF) released a preliminary analysis indicating that as of February 25, 2009, they estimate that $8.017 billion is available to provide State General Fund relief from the Federal Stimulus package, the American Recovery and Reinvestment Act. The report contains various place holders classified as "unknowns," such as the Disproportionate Share Hospital funding, the Health Information Technology Act funds, and transitional medical assistance program, amongst others. Once it is determined how much the State will receive in Federal funds from these programs, the DOF report will be updated.

As reported in our February 20, 2009 Sacramento Update, the FY 2009-10 State Budget Act contains a $10.0 billion trigger mechanism to restore funding for specific programs if Federal Stimulus revenues are sufficient to offset $10.0 billion in State General Fund costs. If the mechanism is triggered, the County's $24.4 million loss for the Federal Safety Net Care Pool, and $5.6 million loss for Medi-Cal optional benefit costs incurred as part of the State Budget Act will be restored. The program restorations would occur if the State Treasurer and the Director of Finance determine by April 1, 2009 that funds in this amount will be available. The State Treasurer and the Director of Finance are scheduled to hold a public hearing on March 17, 2009 to gather information which would help them make the trigger determination.

According to a review by the Western Center for Law & Poverty, the DOF preliminary analysis appears to underestimate many potential areas of the Federal Stimulus package that could be considered as State General Fund relief. As an example, their review highlights that the DOF report finds no State General Fund savings from the $4.9 billion in State Fiscal Stabilization Funds that California is eligible to receive. While these funds can be used to fund both K-12 and higher education, DOF indicates that maintenance of effort requirements make it unavailable for State General Fund relief.

Pursuit of County Position on Legislation

AB 23 (Jones), as amended on February 23, 2009, **SBX3 26 (Alquist)**, as introduced on March 3, 2009, and **SB 337 (Alquist)**, as introduced on February 25, 2009, would repeal current State law which requires semi-annual reporting to maintain Medi-Cal eligibility for children and reinstitute 12-month continuous Medi-Cal eligibility for children under 19 years of age. This change is necessary to ensure that the State qualifies to receive the temporary increase in the FMAP pursuant to the recently enacted H.R. 1, the American Recovery and Reinvestment Act.

As part of the FY 2008-09 Budget Act, the State eliminated 12-month continuous Medi-Cal eligibility for children under 19 years of age and instead required semi-annual reporting to maintain Medi-Cal eligibility for these children. According to the September 15, 2008 Senate Floor Analysis of FY 2008-09 budget trailer bill language, semi-annual reporting would reduce the number of children receiving Medi-Cal for an estimated $13.9 million in State General Fund savings in FY 2008-09. However, the American Recovery and Reinvestment Act, requires states to maintain Medicaid eligibility standards, methodologies, or procedures at the July 1, 2008 level in order to qualify for the FMAP increase. As such, AB 23, SBX3 26, and SB 337 have been introduced as potential vehicles to repeal the semi-annual reporting requirement in order for the State to be eligible to receive additional FMAP funding.

Failure to repeal the semi-annual reporting requirement before June 30, 2009 could result in the State potentially losing an estimated $2.0 billion in increased FMAP funding retroactive to October 1, 2008. Consistent with our March 4, 2009 Washington, D.C. Update, if the State is not eligible to receive the FMAP increase, the County could lose an estimated $139.6 million in savings for the period covering October 1, 2008 to June 30, 2009.

It is critical for the State to qualify for the temporary increase in FMAP because additional Federal funds will help offset the State Budget deficit and help address its current cash-flow crisis. In addition, as reported in our February 20 and 27, 2009 Sacramento Updates, the recently enacted FY 2009-10 State Budget Act contains a trigger mechanism which would restore funding for specific programs if Federal Stimulus revenues are sufficient to offset $10.0 billion in State General Fund costs. Increased FMAP funding will be considered in the calculation to determine whether the State will receive the $10.0 billion.

Therefore, consistent with existing Board policy to support proposals which provide a greater share of available Federal funding to the County or the State and policy to simplify Medi-Cal eligibility and promote retention of benefits, **the Sacramento Advocates will support AB 23, SBX3 26, SB 337, or similar legislation to reinstate 12-month continuous Medi-Cal eligibility for children.**

There is no registered support or opposition on file for these bills. AB 23 was scheduled for hearing on March 10, 2009; however, according to the Assembly Health Consultant, this hearing will be postponed. Hearings have not been scheduled for SBX3 26 and

SB 337. Also, the Sacramento advocates advise that the Assembly Health Committee Consultant indicated that ABX3 25 (Jones) will be amended to reflect the same language as AB 23. It is our understanding that the Legislative Leadership will be meeting on handling these bills next week.

We will continue to keep you advised.

WTF:GK
MR:VE:lm

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants